

Message Text

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ACTION EUR-12

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TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
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DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, CA
SUBJECT: CANADIAN INFLATION RATE CONTINUES TO ACCELERATE
IN JUNE.

REF: OTTAWA 3176

1. SUMMARY: FOOD PRICES CONTINUED TO FUEL INFLATION IN JUNE AS NON-SEASONALLY ADJUSTED CONSUMER PRICE INDEX CLIMBED BY 0.9 PERCENT. TWELVE MONTH INCREASE IN INDEX WAS 9.2 PERCENT COMPARED WITH 9.0 PERCENT IN MAY. HOWEVER, ON SEASONALLY ADJUSTED BASIS, ANNUAL RATE OF PRICE INCREASE DECELERATED IN THREE MONTHS TO JUNE WITH INDEX OF NON-FOOD ITEMS INCREASING AT ANNUAL RATE OF ONLY 2.5 PERCENT. DUE MAINLY TO PERSISTENCE OF VIRULENT RISE IN FOOD PRICES, AVERAGE INCREASE IN CONSUMER PRICES COULD EXCEED 8 PERCENT THIS YEAR. END SUMMARY.

2. ACCORDING TO JULY 12 STATCAN RELEASE, THE UNADJUSTED (NSA) CONSUMER PRICE INDEX (CPI) ADVANCED TO 175.1 IN JUNE, A RISE OF 0.9 PERCENT FROM MAY. INCREASE MAINLY DUE
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TO CONTINUED SHARP (2.0 PERCENT)RISE IN PRICE OF FOOD, ESPECIALLY BEEF. INDEX OF NON-FOOD ITEMS ROSE BY 0.4 PERCENT WITH HIGHER HOME OWNERSHIP COSTS ACCOUNTING FOR MORE THAN HALF OF INCREASE.

3. IN TWELVE MONTHS TO JUNE, UNADJUSTED INCREASE ADVANCED BY 9.2 PERCENT COMPARED WITH 9 PERCENT RISE IN MAY. FOOD

PRICES WERE UP BY 17.9 PERCENT; NON-FOOD PRICES BY 5.9 PERCENT.

4. ON SEASONALLY ADJUSTED BASIS, INCREASE IN CPI DECELERATED IN JUNE. INDEX INCREASED BY 0.6 PERCENT AFTER RISE OF 1.2 PERCENT IN MAY. FOOD AND NON-FOOD PRICES ROSE BY 1.3 PERCENT AND 0.3 PERCENT RESPECTIVELY. IN THREE MONTHS TO JUNE, CPI ADVANCED AT SEASONALLY ADJUSTED ANNUAL RATE OF 8.9 PERCENT, DOWN SOMEWHAT FROM 11.3 PERCENT ANNUAL RATE IN MAY. FOOD PRICES SURGED AHEAD AT 26 PERCENT ANNUAL RATE, BUT RISE IN NON-FOOD PRICES WAS ONLY 2.5 PERCENT.

5. COMMENT: IN VIEW OF PERSISTENCE OF STAGGERING INCREASES IN FOOD PRICES AND WORSENING U.S. INFLATION PERFORMANCE, WE NOW EXPECT AN 8 PERCENT YEAR OVER YEAR AVERAGE INCREASE IN THE CPI THIS YEAR, EVEN ASSUMING THAT CUT IN SALES TAXES IS EXTENDED BEYOND OCTOBER. AT RECENT MEETING OF FEDERAL/PROVINCIAL FINANCE MINISTERS, FINANCE MINISTER CHRETIEN INDICATED THAT GOC DID NOT HAVE BUDGETARY ROOM FOR EXTENSION OF FEDERAL FUNDING OF SALES TAX CUTS. HOWEVER, WE DO NOT TAKE CHRETIEN'S STATEMENT AS CONCLUSIVE EVIDENCE THAT EXTENSION IS NOT IN CARDS, SINCE GOC IS WELL AWARE THAT SOME ANTICIPATORY BUYING (ON WHICH IT IS COUNTING TO BOOST ECONOMY IN SECOND HALF OF YEAR) WOULD NOT OCCUR IF EXTENSION WERE ANNOUNCED TOO EARLY. LIMITED OFFICIAL USE

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IF THERE IS NO EXTENSION, INFLATION RATE WILL BE SLIGHTLY IN EXCESS OF 8 PERCENT.

6. IN EITHER CASE, THE DIMMER PROSPECTS FOR INFLATION IMPLY THAT REAL CONSUMPTION SPENDING WILL BE LOWER THAN THE 4 PERCENT WE PREVIOUSLY FORECAST (REFTEL) AND THAT REAL GNP GROWTH IS LIKELY TO BE IN 3.5 - 4 PERCENT RANGE. ENDERS

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